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Office of Fiscal and Program Review

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FISCAL NEWS

MONTHLY NEWSLETTER OF THE OFFICE OF FISCAL AND PROGRAM REVIEW

AUGUST 2007

Volume 1, Number 8

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The Office of Fiscal and Program Review (OFPR) is a nonpartisan staff office of the Legislative Council providing budget, tax and general fiscal research and analysis for the Maine State Legislature.



Month In Review

The revenue picture for the first month of FY 2008 was disappointing for both the General Fund and the Highway Fund. A good portion of the negative variances may be related to timing issues as adjusting old processes to the new accounting system has proved to have a longer learner curve than anticipated.

The Appropriations Committee has begun work on “The Initiative” to Streamline State Government, creating a web-based input for the public’s savings ideas and has directed agencies to report back on their ideas to achieve General Fund savings of \$10.1 million.

General Fund Revenue Update

Total General Fund Revenue - FY 2008 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
July	231.5	223.3	(8.2)	-3.5%	222.4	0.4%

General Fund revenue for the first month of FY 2008 was under budget by \$8.2 million or -3.5%. Growth over July 2006 was 0.4%. Major negative variances in July were the Corporate Income Tax, Estate Tax and Other Revenue categories.

The Corporate Income Tax and Estate Tax variances are nothing to be overly concerned about. Corporate Income Tax collections for July are a very small percentage of the total for the year and Estate Tax collections are up and down each month and do not have a consistent pattern over the course of the year. A large estate tax payment was received in the beginning of August, which should help offset July’s variance.

The negative variance in Other Revenue, under budget by \$6.7 million in July, was driven primarily by negative variances in Judicial Department and Department of Health and Human Services (DHHS) revenue.

The Judicial Department recorded only \$1.5 million of revenue in July versus a \$3.4 million budgeted amount. The Judicial Department believes most of this fine revenue variance is related to process adjustments due to the transition of the accounting system. Accounting will catch up as the department staff becomes more familiar with the new system.

**General Fund Revenue Update—continued**

The DHHS revenue variance reflects collections of only \$1.3 million compared to budgeted collections of \$5.3 million. Some portion of this variance is related to timing issues and billing delays due to staff turnover and some accounting system transition issues, but \$0.7 million reflects

an adjustment to targeted case management rates that offsets over billings in federal fiscal year 2007. The required adjustments to rates prospectively will require a revenue forecast adjustment this fall between \$4 and \$5 million for the current biennium.

Highway Fund Revenue Update**Total Highway Fund Revenue - FY 2008 (\$'s in Millions)**

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
July	29.6	25.8	(3.8)	-12.8%	28.3	-8.9%

Highway Fund revenue was under budget in July by \$3.8 million or -12.8% and actual revenue declined by 8.9% from last July's revenue. Fuel taxes were off by \$2.9 million in July. \$2.4 million of this variance was related to special fuels, some of which is expected to be offset over the next few months.

Motor vehicle fee revenue was off as well (registrations and title fees collections are below budget) and no Highway Fund fine revenue was recorded in July. While the Highway Fund squeaked out a modest

positive variance for last fiscal year, the trends in fuel prices and the dampening effect on consumption will likely mean a downward revenue forecast revision for Fuel Tax this fall.

Cash Balances Update**Summary of Treasurer's Cash Pool****July 2007 Average Daily Balances****Millions of \$'s**

General Fund (GF) Total	\$1.4
General Fund (GF) Detail:	
Budget Stabilization Fund	\$115.5
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$1.9
Other General Fund Cash	(\$156.6)
Other Spec. Rev. - Interest to GF	\$173.8
Other State Funds - Interest to GF	\$4.5
Highway Fund	\$27.7
Other Spec. Rev. - Retaining Interest	\$79.2
Other State Funds	\$242.4
Independent Agency Funds	\$118.8
Total Cash Pool	\$647.7

Average balance for the total cash pool in July was \$647.7 million. This is above the average balance of the last 6 years of \$607.2 million. This improved position is in spite of the fact that the State has relied on internal borrowing from within the cash pool rather than going out to external, short-term borrowing, such as Tax Anticipation Notes. The current strategy of using this internal borrowing as much as possible remains in effect for Fiscal Year 2008.

Reserve Fund balances in the General Fund (consisting of the Maine Budget Stabilization Fund and the Reserve for General Fund Operating Capital) have recovered to their previous peaks at the end of Fiscal Year 2001, but will only increase by the amount of interest earned on Budget Stabilization Fund balances in the short-term.

The interest on balances in the Maine Budget Stabilization Fund totaled approximately \$6.6 million in FY 2007. No additional transfers are expected at the close of Fiscal Year 2008 due to the continuing preemption of the normal statutory transfers to the various reserves by the transfers to MaineCare for hospital payments (see discussion under MaineCare Spending Update).



MaineCare Spending Update

Consistent with the provisions of Part X of the 2008-2009 Biennial Budget Bill (PL 2007, c. 240), the Department of Health and Human Services (DHHS) has continued to provide weekly MaineCare spending and interim payment recovery reports for Fiscal Year 2008 to the Appropriations and the Health and Human Services committees. The Fiscal News will continue to provide summaries of these weekly reports as warranted and as trends further develop for the current fiscal year.

In last month's issue, it was noted MaineCare programs had carried forward a significant amount of funding from Fiscal Year 2007 to Fiscal Year 2008, and that pursuant to PL 2007, c. 1, Part L, DHHS was required to certify to the State Controller the unencumbered balance carried forward of the \$30 million appropriated for increased prospective interim payments to hospitals. The full \$30 million appropriation was not expected to be available for hospital payments because it also served as the contingency appropriation used to fund other Fiscal Year 2007 MaineCare shortfalls.

In an August 23, 2007 letter to the Appropriations Committee, the State Controller

indicated DHHS had certified that \$9.6 million of a total of \$12.7 million in Fiscal Year 2007 unobligated balances available to MaineCare, was "the true unencumbered unobligated carry forward available for MaineCare of the \$30 million appropriation." The letter indicated the \$3.1 million balance of the \$12.7 million was to be used to pay the state seed of MaineCare claims pushed into FY 2008.

The \$9.6 million certified balance of the \$30 million appropriation when combined with the \$17.8 million to be transferred from the unanticipated Fiscal Year 2007 General Fund surplus to MaineCare (see discussion in July 2007 Fiscal News), brings the total FY 2008 appropriation to be used for the state seed of increased prospective interim payments to hospitals to \$27.4 million. While this total amount will be deducted from the \$107.5 million transfer of unappropriated surplus (\$82 million for hospitals prospective interim payments and \$25.5 million for hospital settlement) provided in Part MM of the 2008-2009 Biennial Budget Bill (PL 2007, c. 240), up to \$80.1 million of the unappropriated surplus would still be earmarked for hospital payment increases at the end of Fiscal Year 2008.

"The Initiative" to Streamline State Government

As noted in last month's Fiscal News, the Appropriations Committee is undertaking a comprehensive analysis of State Government with the goals of consolidating functions and eliminating duplication and inefficiencies in programs, in contracted personal services and in the administrative and management positions within the structure of State Government. As part of this analysis, the committee is investigating and identifying major sources of administrative excess, redundancy, inefficiency and program overlap with other state, local or federal programs. This effort is referred to as "The Initiative" to Streamline State Government authorized by PL 2007, c. 240, Part QQ.

The committee has begun an intensive information gathering effort on two fronts based on direction provided to staff at the committee's July meeting.

The committee has been soliciting public input through the internet and has sought savings ideas from departments and agencies by providing targeted level of savings for agencies. "The Initiative" has a separate web page where staff is posting information about the committee's efforts to streamline state government. See <http://www.maine.gov/legis/ofpr/afaInitiative.html>.

Public Input

The committee created a web page to accept public input. The numerous responses received, many anonymous, were compiled and collated by the staff of the Office of Fiscal and Program Review. The public input volume spiked up after media coverage of this outreach effort by the committee. Many responses have been very general, but some



“The Initiative” to Streamline State Government—continued

have met the criteria established by the committee at its August 30th meeting. A shorter list will be compiled and given a preliminary analysis by OFPR staff.

All responses (with minimal editing) are being compiled and sorted in some very broad categories. A document reflecting the responses received through August 24th at noon has been posted on the web and a second document for those received afterward up until September 14th at 5PM, the deadline for inclusion in this compilation, will be posted shortly after the deadline. The committee decided to keep the web site open for continuous public input, but the web site will note that the comments received after the deadline would only be transmitted to the committee if they met the screening criteria of the committee. The direct link for the public input web page is <http://www.maine.gov/legis/ofpr/afaSuggestionBox.html>.

Many suggestions were received regarding reducing the size of the Legislature. These suggestions and some other savings ideas affecting legislative agencies and operations have been referred to the Legislative Council for review. The Legislative Council has convened its budget subcommittee to review savings proposals in response to the targeted savings request from the committee.

Agency Savings Proposals

In addition to the public input, the committee established savings targets for agencies. See <http://www.maine.gov/legis/ofpr/afaInitiativeLetterToAgencies.pdf> and <http://www.maine.gov/legis/ofpr/afaInitiativeAgencyTargets.pdf>, the website for the target amounts and the responses received by agencies to date.

At the committee’s August 30th meeting, the Administration presented its preliminary recommendations for items that would achieve the \$10.1 million targeted General Fund savings. With a very short turn-around time for response to the committee request for savings ideas, the committee was pleased with the initial presentation of “recommended” savings from the Governor, which totaled approximately \$11.3 million. The Governor and other agencies submitted other proposals, which have yet to be reviewed by the committee. The Commissioner of Administrative and Financial Services also noted that there are still several other proposals that will require more analysis and refinement and may be presented at future meetings.

Next Steps

The Appropriations Committee established its schedule for the remainder of this interim before the 2nd Regular Session begins in January. The next meetings were scheduled for the last week in September, Wednesday and Thursday, the 26th and 27th. This schedule was intended to give the Office of Fiscal and Program Review time to filter the public input using the committee’s criteria and to provide some basic analysis of those filtered proposals. At the September committee meetings, the committee will provide some guidance regarding which of these proposals it wants to pursue further.

The committee also directed the Office of Fiscal and Program Review and the Administration to assist the Office of Program Evaluation and Government Accountability (OPEGA) to expedite its current project on State Administration staffing and contracted services so that OPEGA could conclude its analysis for the November committee meetings.

General Fund and Highway Fund Revenue
Fiscal Year Ending June 30, 2008
Reflecting Budgeted Amounts Through 123rd Legislature, 1st Regular Session

JULY 2007 REVENUE VARIANCE REPORT

Revenue Line	July '07 Budget	July '07 Actual	July '07 Variance	FY08 YTD Budget	FY08 YTD Actual	FY08 YTD Variance	FY08 YTD Variance %	FY07 Budgeted Totals
General Fund								
Sales and Use Tax	96,299,197	96,425,943.06	126,746.06	96,299,197	96,425,943.06	126,746.06	0.1%	1,006,131,180
Service Provider Tax	4,266,226	4,269,329.99	3,103.99	4,266,226	4,269,329.99	3,103.99	0.1%	51,181,910
Individual Income Tax	95,118,505	94,757,221.94	(361,283.06)	95,118,505	94,757,221.94	(361,283.06)	-0.4%	1,382,788,225
Corporate Income Tax	8,500,000	7,127,700.88	(1,372,299.12)	8,500,000	7,127,700.88	(1,372,299.12)	-16.1%	202,052,405
Cigarette and Tobacco Tax	14,743,933	14,365,548.31	(378,384.69)	14,743,933	14,365,548.31	(378,384.69)	-2.6%	163,774,241
Public Utilities Tax	0	0.00	0.00	0	0.00	0.00	N/A	17,476,987
Insurance Companies Tax	419,295	1,787,969.51	1,368,674.51	419,295	1,787,969.51	1,368,674.51	326.4%	76,751,673
Estate Tax	3,500,000	2,017,093.52	(1,482,906.48)	3,500,000	2,017,093.52	(1,482,906.48)	-42.4%	45,258,169
Property Tax - Unorganized Territory	0	0.00	0.00	0	0.00	0.00	N/A	12,263,986
Income from Investments	0	27,352.24	27,352.24	0	27,352.24	27,352.24	N/A	1,424,000
Transfer to Municipal Revenue Sharing	(10,413,381)	(10,331,589.99)	81,791.01	(10,413,381)	(10,331,589.99)	81,791.01	0.8%	(134,749,842)
Transfer from Lottery Commission	3,833,400	4,359,853.37	526,453.37	3,833,400	4,359,853.37	526,453.37	13.7%	49,834,250
Other Revenue	15,188,062	8,444,056.68	(6,744,005.32)	15,188,062	8,444,056.68	(6,744,005.32)	-44.4%	231,506,341
Totals	231,455,237	223,250,479.51	(8,204,757.49)	231,455,237	223,250,479.51	(8,204,757.49)	-3.5%	3,105,693,525
Highway Fund								
Fuel Taxes	21,627,326	18,682,142.91	(2,945,183.09)	21,627,326	18,682,142.91	(2,945,183.09)	-13.6%	234,550,398
Motor Vehicle Registration and Fees	6,827,335	6,206,512.71	(620,822.29)	6,827,335	6,206,512.71	(620,822.29)	-9.1%	87,290,064
Inspection Fees	382,100	421,379.50	39,279.50	382,100	421,379.50	39,279.50	10.3%	4,433,458
Fines	169,106	0.00	(169,106.00)	169,106	0.00	(169,106.00)	-100.0%	2,018,239
Income from Investments	0	0.00	0.00	0	0.00	0.00	N/A	795,000
Other Revenue	601,840	504,917.94	(96,922.06)	601,840	504,917.94	(96,922.06)	-16.1%	10,195,906
Totals	29,607,707	25,814,953.06	(3,792,753.94)	29,607,707	25,814,953.06	(3,792,753.94)	-12.8%	339,283,065

Comparison of Actual Year-to-Date Revenue Through July of Each Fiscal Year

REVENUE CATEGORY	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg	FY 2008	% Chg
GENERAL FUND										
Sales and Use Tax	\$86,508,519.32	4.5%	\$91,816,108.05	6.1%	\$91,925,611.73	0.1%	\$93,534,191.99	1.7%	\$96,425,943.06	3.1%
Service Provider Tax	\$0.00	N/A	\$0.00	N/A	\$3,637,926.31	N/A	\$4,102,139.88	12.8%	\$4,269,329.99	4.1%
Individual Income Tax	\$83,052,539.92	19.1%	\$79,910,313.30	-3.8%	\$81,609,866.28	2.1%	\$91,540,695.33	12.2%	\$95,539,504.76	4.4%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	(\$902,443.76)	N/A	(\$1,240.30)	99.9%	(\$711,441.36)	-57260.4%	(\$782,282.82)	-10.0%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	(\$96,624.00)	N/A	\$0.00	100.0%	\$0.00	N/A
Corporate Income Tax	\$1,844,585.80	-53.1%	\$5,652,128.01	206.4%	\$6,572,991.46	16.3%	\$10,487,769.39	59.6%	\$7,127,700.88	-32.0%
Cigarette and Tobacco Tax	\$8,549,404.45	-0.2%	\$8,431,327.15	-1.4%	\$9,398,358.31	11.5%	\$14,563,501.15	55.0%	\$14,365,548.31	-1.4%
Public Utilities Tax	(\$293,687.83)	-95.8%	(\$150,000.00)	48.9%	\$0.00	100.0%	\$0.00	N/A	\$0.00	N/A
Insurance Companies Tax	\$1,824,335.58	1.4%	\$1,043,066.93	-42.8%	\$736,893.40	-29.4%	\$325,410.48	-55.8%	\$1,787,969.51	449.5%
Estate Tax	\$2,618,823.10	104.9%	\$895,568.17	-65.8%	\$8,939,072.87	898.1%	\$2,017,602.79	-77.4%	\$2,017,093.52	0.0%
Property Tax - Unorganized Territory	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A
Income from Investments	\$0.00	N/A	\$0.00	N/A	\$4,207.14	N/A	\$61.67	-98.5%	\$27,352.24	44252.6%
Revenue Sharing Transfers	(\$8,741,687.91)	-9.6%	\$0.00	100.0%	(\$9,366,075.10)	N/A	(\$10,146,621.11)	-8.3%	(\$10,331,589.99)	-1.8%
Liquor Transfers	\$0.00	-100.0%	\$50,021,472.08	N/A	\$150.00	-100.0%	\$3,930.05	2520.0%	\$0.00	-100.0%
Lottery Transfers	\$0.00	-100.0%	\$3,299,583.75	N/A	\$3,953,794.97	19.8%	\$4,170,265.27	5.5%	\$4,359,853.37	4.5%
Other Revenue	\$10,577,364.39	-9.1%	\$13,091,344.36	23.8%	\$11,037,488.77	-15.7%	\$12,516,518.25	13.4%	\$8,444,056.68	-32.5%
TOTAL GENERAL FUND REVENUE	\$185,940,196.82	4.9%	\$253,108,468.04	36.1%	\$208,352,421.84	-17.7%	\$222,404,023.78	6.7%	\$223,250,479.51	0.4%
HIGHWAY FUND										
Fuel Taxes	\$17,083,324.18	6.1%	\$18,150,810.02	6.2%	\$17,732,329.87	-2.3%	\$20,682,151.50	16.6%	\$18,682,142.91	-9.7%
Motor Vehicle Registration and Fees	\$6,838,538.96	4.5%	\$6,612,845.87	-3.3%	\$6,554,161.22	-0.9%	\$6,613,980.83	0.9%	\$6,206,512.71	-6.2%
Inspection Fees	\$467,980.77	72.0%	\$272,571.90	-41.8%	\$407,492.80	49.5%	\$365,218.86	-10.4%	\$421,379.50	15.4%
Fines	\$174,069.59	-27.3%	\$167,189.70	-4.0%	\$0.00	-100.0%	\$135,942.08	N/A	\$0.00	-100.0%
Income from Investments	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A
Other Revenue	\$257,099.62	-50.3%	\$533,581.31	107.5%	\$770,704.72	44.4%	\$549,277.49	-28.7%	\$504,917.94	-8.1%
TOTAL HIGHWAY FUND REVENUE	\$24,821,013.12	4.9%	\$25,736,998.80	3.7%	\$25,464,688.61	-1.1%	\$28,346,570.76	11.3%	\$25,814,953.06	-8.9%

Adjusted for Service Provider Tax Split